



VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 8033

THIRD QUARTER REPORT

2021

* *for identification purpose only*

Characteristics of GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

BUSINESS AND FINANCIAL HIGHLIGHTS FOR THE THREE-MONTH PERIOD AND NINE-MONTH PERIOD

- Total contracts secured during the Nine-month Period reached HK\$307,500,000, representing approximately 75% of total contracts signed during 2020
- Due to long delivery lead time caused by shortage of electronic components and interruptions to supply chain, revenue of only HK\$78,248,000 registered for the Three-month Period, the weakest quarter among the three quarters of 2021. Total revenue for the Nine-month Period reached HK\$283,028,000, representing a 5.57% increase as compared to the same corresponding period of 2020
- Due to the default of the CFLD Bond and CFLD Bond 2, an impairment loss of financial assets at FVOCI of HK\$3,239,000 was recognised, resulting in net loss of HK\$1,302,000 and HK\$6,639,000 for the Three-month Period and Nine-month Period respectively
- MDL secured over HK\$30,000,000 worth of contracts from different vertical markets (namely utilities, healthcare, education and insurance), or 107% of total contracts secured from the named vertical markets in 2020
- The Mainland China team added HK\$27,000,000 worth of data networks infrastructure and SD-WAN contracts, bringing total contracts secured by the Mainland China team for the Nine-month Period to reach almost HK\$98,000,000, or 130% of total contracts secured during 2020
- TTSA posted its second profitable quarter since 2015 with net profit of HK\$3,712,000 registered for the Nine-month Period
- The Group continues to enjoy a solid and healthy capital structure with no external borrowings. Net cash balances and financial assets at FVOCI (current and non-current) totalled HK\$125,547,000, or approximately 37% of total assets. Equity base stood at HK\$182,549,000 as at 30th September 2021
- The Directors do not recommend payment of an interim dividend for the Nine-month Period

THIRD QUARTER RESULTS

The Board is pleased to present the unaudited consolidated results of the Group for the Three-Month Period and Nine-Month Period, which was reviewed by the audit committee of the Company, as follows:

		Unaudited			
		Three months ended 30th September 2020		Nine months ended 30th September 2020	
Notes	Three- Month Period HK\$'000	HK\$'000	Nine- Month Period HK\$'000	HK\$'000	
	Revenue	78,248	94,797	283,028	268,083
	Cost of sales of goods	(27,966)	(42,741)	(139,532)	(136,487)
	Cost of providing services	(22,995)	(21,852)	(69,204)	(61,429)
	Gross profit	27,287	30,204	74,292	70,167
	Selling, marketing costs and administrative expenses	(29,762)	(25,882)	(83,504)	(76,438)
	Other gains/(losses)	472	(49)	576	888
	Operating (loss)/profit	(2,003)	4,273	(8,636)	(5,383)
	Finance income	735	955	2,120	2,741
	Finance costs	(27)	(24)	(99)	(88)
	Finance income – net	708	931	2,021	2,653
	(Loss)/profit before income tax	(1,295)	5,204	(6,615)	(2,730)
	Income tax expense	(7)	–	(24)	(3)
	(Loss)/profit for the period	(1,302)	5,204	(6,639)	(2,733)
	(Loss)/profit is attributable to:				
	Owners of the Company	(1,292)	5,877	(4,984)	(1,570)
	Non-controlling interests	(10)	(673)	(1,655)	(1,163)
		(1,302)	5,204	(6,639)	(2,733)
	(Loss)/earnings per Share for (loss)/profit attributable to the ordinary equity holders of the Company (expressed in HK cent per Share)				
	Basic and diluted (loss)/earnings per Share	(0.21)	0.96	(0.81)	(0.26)
	Dividends	–	–	–	–

Notes to the condensed consolidated income statement

1 Income tax expense

Hong Kong profits tax was provided at the rate of 8.25% for the first HK\$2,000,000 of assessable profits of one of the subsidiaries incorporated in Hong Kong and 16.5% on other assessable profits for the Nine-month Period (nine months ended 30th September 2020: same). Taxation on non-Hong Kong profits was calculated on the estimated assessable profits for the Nine-month Period at the rates of taxation prevailing in the regions in which the Group operated.

2 (Loss)/earnings per Share

(a) Basic (loss)/earnings per Share

Basic (loss)/earnings per Share was calculated by dividing:

- the (loss)/profit attributable to owners of the Company
- by the weighted average number of Shares outstanding during the Nine-month Period.

(b) Diluted (loss)/earnings per Share

Diluted (loss)/earnings per Share adjusted the figures used in the determination of basic (loss)/earnings per Share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential Shares, and
- the weighted average number of additional Shares that would have been outstanding assuming the conversion of all dilutive potential Shares.

(c) Loss used in calculating loss per Share

	Nine-month Period HK\$'000	Nine months ended 30th September 2020 HK\$'000
Loss attributable to ordinary equity holders of the Company used in calculating basic and diluted loss per Share	<u>(4,984)</u>	<u>(1,570)</u>

(d) Weighted average number of Shares used as the denominator

	Nine-month Period Number	Nine months ended 30th September 2020 Number
Weighted average number of Shares used as the denominator in calculating basic loss per Share (thousands)	614,435	614,435
Adjustments for calculation of diluted loss per Share		
– Options (thousands)	3,582	–
	<u>618,017</u>	<u>614,435</u>
Weighted average number of Shares and potential Shares used as the denominator in calculating diluted loss per Share (thousands)	<u>618,017</u>	<u>614,435</u>

(e) Information concerning the classification of securities – Options

Options granted to Directors and employees were considered to be potential Shares. They were included in the determination of diluted loss per Share to the extent to which they were dilutive. The Options were not included in the determination of basic loss per Share.

3 Dividends

The Directors do not recommend payment of an interim dividend for the Nine-month Period (nine months ended 30th September 2020: nil).

4 Reserves

	Contributed surplus HK\$'000	Share-based payments HK\$'000	Capital redemption reserve HK\$'000	FVOCI HK\$'000	Merger reserve HK\$'000	Statutory reserve HK\$'000	Foreign currency translation HK\$'000	Total other reserves HK\$'000	Accumulated losses HK\$'000
As at 1st January 2020	97,676	7,442	702	1,278	35,549	49	2,782	145,478	(3,970)
Revaluation – loss	–	–	–	(1,559)	–	–	–	(1,559)	–
Currency translation differences	–	–	–	–	–	–	(194)	(194)	–
Share-based payment expenses	–	617	–	–	–	–	–	617	–
Dividend relating to 2019	–	–	–	–	–	–	–	–	(6,144)
Loss for the nine months ended 30th September 2020	–	–	–	–	–	–	–	–	(1,570)
As at 30th September 2020	<u>97,676</u>	<u>8,059</u>	<u>702</u>	<u>(281)</u>	<u>35,549</u>	<u>49</u>	<u>2,588</u>	<u>144,342</u>	<u>(11,684)</u>
As at 1st January 2021	97,676	8,059	702	338	35,549	49	2,493	144,866	(6,288)
Revaluation – loss	–	–	–	(3,918)	–	–	–	(3,918)	–
Impairment of debt instruments at FVOCI	–	–	–	3,239	–	–	–	3,239	–
Currency translation differences	–	–	–	–	–	–	(104)	(104)	–
Dividend relating to 2020	–	–	–	–	–	–	–	–	(6,144)
Loss for the Nine-month Period	–	–	–	–	–	–	–	–	(4,984)
As at 30th September 2021	<u>97,676</u>	<u>8,059</u>	<u>702</u>	<u>(341)</u>	<u>35,549</u>	<u>49</u>	<u>2,389</u>	<u>144,083</u>	<u>(17,416)</u>

BUSINESS REVIEW

Business in Macao, Hong Kong and Mainland China

Macao, Hong Kong and Mainland China remain the core operating markets of the Group. Total contracts secured by the Group during the Nine-month Period reached HK\$307,500,000, representing approximately 75% of total contracts signed during 2020 of HK\$408,000,000.

In Macao, the presence of new local cases found in early August and late September resulted in new travel restrictions between Macao and Mainland China, which deterred tourists from visiting the enclave. As a tourist-centric city, the impact of the new travel restrictions was immediate, as evidenced by number of mainlanders visiting Macao (reported by the Statistics and Census Service) dropped from 724,342 in July to 369,467 in August while monthly gross revenue from games of fortune (reported by the Gaming Inspection and Coordination Bureau) dropped from HK\$8,186,000,000 in July to HK\$4,306,000,000 in August. With COVID-19 pandemic against the backdrop, different gaming operators continue to play cautious with their capital expenditures programme. For the Nine-month Period, total contracts for the provision of surveillance, data networks, servers and storage and IT services that the Group received from different gaming operators amounted to HK\$37,500,000, representing just a mere 12% of total contracts secured during 2021. During pre-COVID-19 times, for example, 2019, business from the gaming sector would have accounted for over 40% of the total contracts generated by the Group.

Over the years, the Government of Macao is a key contributor to the projects pipelines of the Group. During the Nine-month Period, the Group was awarded over HK\$87,000,000 worth of contracts by the Government of Macao (directly or indirectly via main contractors appointed by the Government of Macao), which represented 28% of total contracts secured. Among the works secured included contracts for data networks infrastructure, surveillance systems, servers and storage, firewall, maintenance services and software development for the Health Bureau, Judiciary Police, Public Security Forces Affairs Bureau, Marine and Water Bureau, Identification Services Bureau, Social Security Fund, to name a few.

MDL has always been positioned to focus not only on the Government of Macao but also vertical markets, namely utilities, healthcare, education and insurance. With these named vertical sectors less prone to the COVID-19

pandemic, MDL continues to deliver solid operating performance, securing over HK\$30,000,000 worth of contracts during the Nine-month Period, or 107% of total contracts secured from these named vertical markets during 2020.

As the Hong Kong market remains sluggish, the Hong Kong team continues to focus on providing data networks infrastructure and SD-WAN to telecommunications service providers that support a broad customer base in Mainland China, securing total contracts of HK\$39,300,000 for the Nine-month Period or approximately 69% of total contracts secured in 2020. In Mainland China, despite moves of the Central Government to regulate certain sectors, such as technology, and to tighten rules on data security, business momentum for data networks infrastructure and SD-WAN from different leading telecommunications service providers, network communication service providers and Internet service providers remains solid. During the Three-month Period, the Mainland China team added HK\$27,000,000 worth of contracts, bringing contracts secured by the Mainland China team for the Nine-month Period to reach almost HK\$98,000,000, or 130% of total contracts secured during 2020.

At TSTSH and TSTJX, although only HK\$7,800,000 worth of contracts for its customer network management system secured during the Nine-month Period from telecommunications service providers in the provinces of Guangdong, Jiangxi and Jiangsu and the municipality of Shanghai, TSTSH and TSTJX added HK\$4,100,000 new contracts to its order book in October.

Other Investment – TTSA

The operating performance of TTSA continued to show positive signs of recovery and TTSA posted its second profitable quarter since 2015. During the Nine-month Period, revenue and earnings before interest, tax, depreciation and amortisation registered a 3.4% and 10.7% increase to HK\$138,313,000 and HK\$48,301,000 respectively, while net profit reached HK\$3,712,000 as compared to net loss of HK\$21,029,000 for the same corresponding period of 2020.

There is still no updated news regarding possible change of majority shareholding at TTSA.

Financial Review

Although the Group was awarded almost HK\$110,000,000 worth of contracts during the Three-month Period, or approximately 36% of total contracts secured during the Nine-month Period, due to long delivery lead time caused by shortage of electronic components and interruptions to supply chain, the Group only managed to recognise revenue of HK\$78,248,000 for the Three-month Period, which was the weakest quarter among the three quarters of 2021. Consequently, total revenue for the Nine-month Period reached HK\$283,028,000, representing just a 5.57% increase as compared to the same corresponding period of 2020. Gross profit margin improved, hence gross profit generated for the Three-month Period and Nine-month Period reached HK\$27,287,000 and HK\$74,292,000 respectively.

Salary costs remains the biggest cost element of the Group. During the Three-month Period, the Group continued to control costs and to streamline its human resources structure with payout of several severance packages. Due to the default of the CFLD Bond and CFLD Bond 2, an impairment loss of financial assets at FVOCI of HK\$3,239,000 was recognised, resulting in net loss of HK\$1,302,000 and HK\$6,639,000 for the Three-month Period and Nine-month Period respectively. In the absence of such impairment, the Group would have registered a net profit of HK\$1,937,000 for the Three-month Period, while net loss for the Nine-month Period would have been HK\$3,400,000 only.

The Group continued to enjoy a healthy capital structure with no external borrowing. Total equity stood at HK\$182,549,000 as at 30th September 2021 with total net cash balances and financial assets at FVOCI (current and non-current) at a comfortable level of HK\$125,547,000, or approximately 37% of total assets. Despite comfortable cash position, to weather the Group against the current vulnerable market conditions and to support business operations, the Directors do not propose an interim dividend to be paid out for the Nine-month Period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30th September 2021, the relevant interests and short positions of the Directors or Chief Executives in the Shares, underlying Shares and debentures of the Company or its Associated Corporations which will be required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests and short positions which he took or deemed to have taken under such provisions of SFO) or required pursuant to Section 352 of SFO, to be entered in the register referred to therein or required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Exchange were as follows:

Aggregate long positions in the Shares

Name of Director	Nature of interest	Number of Shares held	Number of underlying Shares (in respect of Options held)	Approximate % of the issued share capital of the Company
José Manuel dos Santos	Corporate (Note 1)	357,945,500	–	58.26
Kuan Kin Man	Personal (Note 2)	22,112,500	840,000	3.74
Monica Maria Nunes	Personal (Note 3)	2,452,500	840,000	0.54
Ho Wai Chung Stephen	Personal (Note 4)	–	350,000	0.06
Fung Kee Yue Roger	Personal (Note 5)	210,000	350,000	0.09
Wong Tsu An Patrick	Personal (Note 6)	–	350,000	0.06
Wong Kwok Kuen	Personal (Note 7)	–	350,000	0.06

Notes:

- 1 As at 30th September 2021, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by OHHL, a company wholly-owned by José Manuel dos Santos.
- 2 The personal interest of Kuan Kin Man comprised 22,112,500 Shares and 840,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Kuan Kin Man as beneficial owner.
- 3 The personal interest of Monica Maria Nunes comprised 2,452,500 Shares and 840,000 underlying Shares in respect of Options granted to her by the Company. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.
- 4 The personal interest of Ho Wai Chung Stephen comprised 350,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Ho Wai Chung Stephen as beneficial owner.

- 5 The personal interest of Fung Kee Yue Roger comprised 210,000 Shares and 350,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Fung Kee Yue Roger as beneficial owner.
- 6 The personal interest of Wong Tsu An Patrick comprised 350,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Wong Tsu An Patrick as beneficial owner.
- 7 The personal interest of Wong Kwok Kuen comprised 350,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Wong Kwok Kuen as beneficial owner.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

The register of Substantial Shareholders required to be kept under Section 336 of Part XV of SFO showed that as at 30th September 2021, the Company was notified of the following Substantial Shareholders' interests, being 5% or more of the issued share capital of the Company. These interests were in addition to those disclosed above in respect of the Directors and Chief Executives:

Aggregate long positions in the Shares

Name	Nature of interest	Number of Shares held	Approximate % of the issued share capital of the Company
ERL	Corporate (Note 1)	357,945,500	58.26
OHHL	Corporate (Note 1)	357,945,500	58.26
Lei Hon Kin	Family (Note 2)	357,945,500	58.26

Notes:

- 1 As at 30th September 2021, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by OHHL, a company wholly-owned by José Manuel dos Santos.
- 2 Lei Hon Kin, the spouse of José Manuel dos Santos, was deemed to be interested in all the interests of José Manuel dos Santos.

COMPETING BUSINESS

As at 30th September 2021, none of the Directors, or any person who was (or group of persons who together were) entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who was (or were) able, as a practical matter, to direct or influence the management of the Company or any of their respective Close Associates had any interest in a business, which competed or might compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company did not redeem any of the Shares during the Nine-month Period. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the Nine-month Period.

DEFINITIONS

“Associated Corporation”	a corporation: <ol style="list-style-type: none">1 which is a subsidiary or holding company of the Company or a subsidiary of the holding company of the Company; or2 (not being a subsidiary of the Company) in which the Company has an interest in the shares of a class comprised in its share capital exceeding in nominal value one fifth of the nominal value of the issued shares of that class
“Board”	the board of Directors (not applicable to Main Board)
“BVI”	the British Virgin Islands
“CFLD”	CFLD (Cayman) Investment Ltd., a company incorporated in the Cayman Islands with limited liability and a subsidiary of China Fortune Land Development Co., Ltd., a company incorporated in PRC with limited liability and whose shares are listed on Shanghai Stock Exchange
“CFLD Bond”	interest-bearing instrument of indebtedness issued by CFLD with a coupon rate of 9% per annum and a maturity date of 31st July 2021
“CFLD Bond 2”	interest-bearing instrument of indebtedness issued by CFLD with a coupon rate of 6.92% per annum and a maturity date of 16th June 2022

“Chief Executive”	a person who either alone or together with one or more other persons is or will be responsible under the immediate authority of the Board for the conduct of the business of the Company
“Close Associate”	has the meaning ascribed thereto in the GEM Listing Rules
“Company”	Vodatel Networks Holdings Limited
“Director”	the director of the Company
“ERL”	Eve Resources Limited, a company incorporated in BVI with limited liability
“Exchange”	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability (not applicable to Shanghai Stock Exchange)
“FVOCI”	fair value through other comprehensive income
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM made by the Exchange from time to time
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“HK cent”	Hong Kong Cent, where 100 HK cents equal HK\$1
“Hong Kong”	the Hong Kong Special Administrative Region of PRC (not applicable to Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited)
“Macao”	the Macao Special Administrative Region of PRC

“Main Board”	the stock market operated by the Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Mainland China”	PRC, other than the regions of Hong Kong, Macao and Taiwan
“MDL”	Mega Datatech Limited, incorporated in Macao with limited liability and an indirect wholly-owned subsidiary of the Company
“Nine-month Period”	nine months ended 30th September 2021
“OHHL”	Ocean Hope Holdings Limited, a company incorporated in BVI with limited liability
“Option”	an option to subscribe for Shares pursuant to the share option scheme approved by the holders of the Shares at the annual general meeting on 22nd June 2012
“PRC”	The People’s Republic of China
“SD-WAN”	software-defined networking in a wide area network
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Share”	ordinary share of HK\$0.10 each in the share capital of the Company
“Substantial Shareholder”	a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company
“Three-month Period”	three months ended 30th September 2021

“TSTJX”	泰思通軟件(江西)有限公司, incorporated in PRC with limited liability and an indirect subsidiary of the Company
“TSTSH”	泰思通軟件(上海)有限公司, incorporated in PRC with limited liability and an indirect subsidiary of the Company
“TTSA”	Timor Telecom, S.A., a company incorporated in the Democratic Republic of Timor-Leste with limited liability

By order of the Board
José Manuel dos Santos
Chairman

Macao, 10th November 2021

Executive Directors	Non-executive Director	Independent non-executive Directors
José Manuel dos Santos Kuan Kin Man Monica Maria Nunes	Ho Wai Chung Stephen	Fung Kee Yue Roger Wong Tsu Au Patrick Wong Kwok Kuen